

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

July 19, 2011

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, July 19, 2011, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Jim Glenn, Co-Chair; Senators Tom Buford, Jared Carpenter, and Julian M. Carroll; Representatives Steven Rudy, and Jim Wayne.

Guests: Representatives John Will Stacey and Jim Gooch; Bob Wiseman, University of Kentucky; John Hicks, Governor's Office of Policy Management; Mike Jones, Department of Military Affairs; Charles Bush, Division of Real Property; Todd Shipp, Kentucky Transportation Cabinet; Kasi White, Kentucky Infrastructure Authority; Donna Duncan; Cabinet for Economic Development; and Jason Tomlinson, University of Louisville.

LRC Staff: Kristi Culpepper and Samantha Gange.

Amendment to the April 2011 Minutes

Senator Leeper indicated that there was an error in the April 2011 minutes. The minutes show that no action was taken on the City of Vine Grove Base Realignment and Closure Economic Development Bond grant project. The committee did approve this project at that meeting.

Representative Wayne made a motion to amend the April minutes to reflect the committee's approval of the project. The motion was seconded by Representative Glenn and approved by voice vote.

Approval of Minutes

Representative Rudy made a motion to approve the minutes of the June 21, 2011, meeting. The motion was seconded by Senator Carroll and approved by voice vote.

Correspondence Items

Senator Leeper asked Kristi Culpepper, Committee Staff Administrator, to discuss correspondence items. Ms. Culpepper said members' folders contained two items of

correspondence. The first item of correspondence was a letter from the Cabinet for Economic Development informing the committee that the amended jobs requirements for the \$500,000 Economic Development Bond grant to the City of Harrodsburg for the benefit of Wausau Paper Towel and Tissue LLC was approved by the Kentucky Economic Development Finance Authority. [At the June meeting, the committee approved the grant contingent upon the Kentucky Economic Development Finance Authority approval.]

The second item of correspondence was a letter from Murray State University updating the committee on the university's Complete Business and Research Center Tenant Space project. The General Assembly appropriated \$1.948 million in restricted funds in the current budget for this project. Murray is reporting that the project will have a scope of \$1.178 million, which is lower than anticipated. While the project will initially be funded with restricted funds as authorized, the university will be reimbursed by a donor over a period of ten years.

Information Items

Ms. Culpepper said members' folders also contained six information items. The first three information items were the quarterly status reports on capital projects for the Finance and Administration Cabinet and the universities that manage their own capital construction programs; the Administrative Office of the Courts; and the Commonwealth Office of Technology.

The next information item was a report from the Department of Commercialization and Innovation of a \$6 million grant from the High-Tech Construction / Investment Pool to Commonwealth Seed Capital to support high-tech companies locating or expanding their operations within the state.

The fifth information item was from the Kentucky Infrastructure Authority regarding interest rates for fiscal year 2011-2012 for Fund A, B, and F loans. The last items of information were the staff and bond market updates.

Report of Scope Increase from the University of Kentucky (UK)

Senator Leeper asked Bob Wiseman, Vice President for Facilitates Management, UK to present one item related to a scope increase. Mr. Wiseman said UK is requesting approval of a \$1,206,392 (6.1 percent) scope increase for the Construct Center for Applied Energy Building #2 project. At the March 2010 meeting, the committee approved the project as an unbudgeted project with a scope of \$19,776,913. The scope increase is necessary to cover bids that exceeded the project designer's and construction manager's estimates. The increased cost will be paid from UK Research Foundation funds.

Representative Carroll made a motion to approve the scope increase. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Lease-Purchase Agreement from the Division of Real Property

Senator Leeper asked Charles Bush, Director, Division of Real Property, Finance and Administration Cabinet, to report several items related to leases. Mr. Bush said the first item was a Lease-Purchase Agreement for the Department of Workforce Investment in Mason County (PR-4612). The rent paid by the state toward the purchase price of the property includes eight years of annual payments of \$43,000 and the final payment of \$1.00 due July 1, 2011, for a total of \$344,001. No committee action was necessary.

Amortization of Leasehold Improvements from the Division of Real Property

Mr. Bush said the second item was a lease modification for the Cabinet for Health and Family Services (CHFS) in Leslie County (PR-3499). The cabinet has submitted a request to obtain security improvements, six additional staff offices to alleviate overcrowding, and an additional storage area. The lessor was requested to submit two estimates for work. The agency has recommended the lower bid from Lewis Construction Company, Inc. Building modification costs of \$39,648 will be amortized over the remaining lease term (through June 30, 2013). Assuming an effective date of July 1, 2011, the cabinet's monthly rental cost will increase by \$1,652.

The third item was a lease modification for CHFS in Trigg County (PR-4425). The cabinet has submitted a request for improvements to the HVAC system supporting the existing telephone / network room. The lessor was requested to submit two estimates for the work. The agency has recommended the lower bid from McNichols Electric / HVAC. Building modification costs of \$2,425 will be amortized over the remaining lease term (through June 30, 2015). Assuming an effective date of July 1, 2011, the cabinet's monthly rental cost will increase by \$50.52. No committee action is required on lease modifications less than \$50,000.

Emergency Lease from the Division of Real Property

Mr. Bush said the last item was an emergency lease for the Kentucky Transportation Cabinet (KYTC) in Marshall County (PR-5231). The Finance and Administration Cabinet declared an emergency to allow for procurement of temporary storm debris storage site licenses to be used for temporary storage of debris resulting from the January 2009 ice storm. The cabinet originally secured an agreement for use of 19.128 acres of land at a cost of \$500 per acre a month; however the original agreement was terminated effective June 30, 2010. The cabinet expects to complete reduction and remediation actions at this location before August 31, 2011, and this is expected to be the final agreement for storm debris storage sites. No committee action was necessary.

In response to a question from Senator Leeper, Mr. Bush said there were 91 emergency lease agreements as a result of the January 2009 ice storm and this agreement would be the last one.

Senator Leeper asked if the state have received FEMA reimbursement to-date. Todd Shipp, Office of General Counsel, KYTC, said the state has received some FEMA reimbursement; however he was not sure of the exact amount. He said he would provide the information to committee staff.

Unbudgeted Capital Projects from the Finance and Administration Cabinet

Senator Leeper asked John Hicks, Deputy Director, Governor's Office of Policy Management, to present three items. Mr. Hicks said the first item was an unbudgeted capital project for the Department of Military Affairs (DMA) to Install Additional Solar Array at the Wendell H. Ford Regional Training Center (WHFRTC) in Greenville, Kentucky. The project scope is \$720,000 and funding for the project has been made possible due to additional federal fiscal year 2011 funding being received from the US Department of Defense. The project consists of additions to the roof and ground mount arrays, which will complete the goal of the Kentucky Army National Guard to take the training center to zero net for energy.

Representative Wayne noted that the US spends more on defense than all other countries combined. He commented that he is opposed to these types of projects.

Representative Rudy said he wanted to commend the Kentucky Army National Guard for their service during the January 2009 ice storm.

Senator Buford made a motion to approve the unbudgeted project. The motion was seconded by Senator Carroll. Five members voted "yes" and one member voted "no." The motion passed.

Mr. Hicks said the second item was an unbudgeted capital project for the DMA to Construct Asphalt Team Facility at the WHFRTC in Greenville, Kentucky. The project scope is \$749,000 and funding for the project has been made possible due to additional federal fiscal year 2011 funding being received from the US Department of Defense. The project will construct an approximately 8,000 square-foot facility to house and provide administrative and storage space for the National Guard Asphalt Unit assigned to the training center.

Senator Leeper asked what the duties of the National Guard Asphalt Unit were. Mike Jones, Executive Director, Office of Management and Administration, Kentucky Army National Guard, said the unit paves roads, assists with disaster relief, and other things. He indicated he would provide additional information to committee staff.

In response to a question from Senator Carroll, Mr. Jones said the unit currently does not produce the asphalt but does provide the final product.

Representative Glenn made a motion to approve the unbudgeted project for the DMA. The motion was seconded by Representative Rudy. Five members voted “yes” and one member voted “no.” The motion passed.

Mr. Hicks said the third item was another unbudgeted capital project for the DMA to Install 100 Kilowatt Solar Array at the Harold L. Disney Training Site in Knox County. The project scope is \$720,000 and funding for the project has been made possible due to additional federal fiscal year 2011 funding being received from the US Department of Defense. The project will install a 100 Kilowatt solar energy array at the training site, which will complete the goal of the Kentucky Army National Guard to take the training site to zero net for energy.

Representative Rudy made a motion to approve the unbudgeted project for the DMA. The motion was seconded by Senator Carroll. Five members votes “yes” and one member voted “no.” The motion passed.

Kentucky Infrastructure Authority (KIA) Fund A Loan Assumptions

Senator Leeper asked Kasi White, Financial Analyst, KIA, to present several items. Ms. White said the first request was a Fund A loan assumption for the City of Hopkinsville in Christian County f/b/o Hopkinsville Water Environment Authority (HWEA) in Christian County. The committee approved the original Fund A loan request at its June 2002, meeting. HWEA is seeking to assume \$298,190 in outstanding Clean Water SRF debt of the City of Crofton Water and Sewer System as a result of HWEA acquiring the system. The loan terms will remain the same as with the original loan, 20 year term with a .40 percent interest rate.

The second request was a Fund A loan assumption for the City of Hopkinsville in Christian County f/b/o HWEA. The committee approved the original Fund A loan request at its January 1994, meeting. HWEA is seeking to assume \$84,473 in outstanding Clean Water SRF debt of the City of Pembroke Water and Sewer System as a result of HWEA acquiring the system. The loan terms will remain the same as with the original loan, 20 year term with a 1.20 percent interest rate.

KIA Fund A Loan Increases

Ms. White said the third loan request was a \$447,300 (10 percent) Fund A loan increase for Sanitation District No. 1 (Boone, Kenton, and Campbell Counties) for replacement of the main drives, feed assemblies, and sludge collector mechanisms for six final clarifiers at the Dry Creek Wastewater Treatment Plant. The committee approved the original Fund A loan request at its June 2009, meeting. The new loan amount is \$4,920,300. The increase is necessitated due to favorable bids being received, which will

allow the district to expand the scope of the project to modify all six clarifiers. The loan term is 20 years with an interest rate of two percent.

The fourth request was an \$180,000 (10 percent) Fund A loan increase for the City of Bardstown in Nelson County for the Bardstown-Bloomfield Sewer Connection project. The committee approved the original Fund A loan at its January 2011, meeting. The new loan amount is \$1,980,000. The increase is necessitated because bids received were higher than originally estimated. The loan term is 20 years with an interest rate of two percent.

KIA Fund A Loans

Ms. White said the fifth request was an \$8,906,000 Fund A Loan for the City of Flemingsburg in Fleming County to construct a new Wastewater Treatment Plant. The loan term is 20 years with an interest rate of one percent. The project qualifies for Green Project Reserve Funding of \$1,910,000 for energy efficiency and being environmentally innovative. The project also qualifies for additional subsidization in the amount of \$2,671,800 in principal forgiveness.

In response to a question from Representative Glenn, Ms. White said the city passed an ordinance that will increase sewer rates from \$22.83 to \$35.17 for 4,000 gallons.

Senator Leeper asked if KIA receives public comment on the rate increases. Ms. White said the increase requests are submitted to KIA and are not presented to the public from KIA. She said all the projects are competitively bid and the bid openings are held at public meetings before being accepted.

The sixth request was a \$1,035,517 Fund A loan for the City of Williamsburg in Whitley County for construction of the Ball Park Pump Station / Force Main Replacement project. The loan term is 20 years with an interest rate of one percent. The project qualifies for additional subsidization in the amount of \$310,655 in principal forgiveness.

Senator Leeper asked if it was unusual to use occupational tax revenue to support a Fund A loan. Ms. White said it is unusual; however there have been a few cases when borrowers have had to commit occupational tax revenue because they were unable to implement rate increases in time to make the debt service payment. She said in this case the city passed the ordinance committing the occupation tax revenue for the first year of the debt service payment because they are waiting on a rate study to take before the Public Service Commission.

Senator Leeper asked Ms. White to explain the Green Project Reserve requirements. Ms. White said for fiscal years 2010 and 2011 Congress implemented

additional requirements that KIA must meet for Fund A and Fund F loan programs. For the Green Project Reserve requirements, KIA must commit 20 percent of the capitalization grant amount towards projects which meet criteria for energy efficiency, water efficiency, being environmentally innovative, and involving green infrastructure. The US Environmental Protection Agency has set guidelines that identify which projects qualify for the Green Project Reserve component.

Ms. White said the seventh loan request was a \$500,000 Fund A loan for the City of Hopkinsville in Christian County f/b/o HWEA for the Greenville Road Sewer Extension project. The loan term is 20 years with an interest rate of two percent.

The eighth loan request was a \$26,641,000 Fund A loan for the City of Hopkinsville in Christian County f/b/o HWEA for the Phase VII sewer project. The loan term is 20 years with an interest rate .of two percent.

The ninth loan request was a \$7,100,000 Fund A loan for the City of Hopkinsville in Christian County f/b/o HWEA for the Oak Grove system acquisition. The loan term is 20 years with an interest rate of two percent.

Representative Wayne made a motion to approve the Fund A loan assumptions, Fund A loan increases, and Fund A loans. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

KIA Fund B Loan Increase and Fund B Loan

Ms. White said the tenth request was a \$36,645 Fund B loan increase for the City of Princeton in Caldwell County for the Jeff Watson Road Sewer System Rehabilitation project. The committee approved the original Fund B loan at its November 2010, meeting. The new loan amount is \$430,645. The increase is necessary due to bids received being higher than estimated. The loan term is 20 years with an interest rate of one percent.

The eleventh request was a \$657,000 Fund B loan for the City of White Plains in Hopkins County for construction of a 50,000 gallon above-ground clearwell, drilling of an additional well, and generators for emergency backup purposes. The loan term is 20 years with an interest rate of two percent.

Senator Carpenter made a motion to approve the Fund B loan increase and the Fund B loan. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

KIA Fund C Loan Assumption

Ms. White said the twelfth loan request was a \$406,250 Fund C loan assumption for the City of Hopkinsville in Christian County f/b/o HWEA for the acquisition of the

Oak Grove Sewer System. The original loan agreement for \$912,970 was executed in June 1998 and was used to extend sewer service and construct a pump station. The loan terms will remain the same as with the original loan, with a 20-year term with the interest rate tied to bonds.

KIA Fund F Loans

Ms. White said the thirteenth loan request was a \$2,500,000 Fund F loan for the Breathitt County Water District in Breathitt County. The project has two components: 1) constructing a water storage tank and extending water lines along Hwy 1098 to the Swift Branch area, and 2) extending water lines to service KY 315 north of 1933 and the remaining side roads off of Canoe Road. The loan term is 20 years with an interest rate of one percent. The project qualifies for additional subsidization of \$875,000 in principal forgiveness.

The fourteenth loan request was a \$4,000,000 Fund F loan for the City of Barbourville in Knox County f/b/o Barbourville Utility Commission for the Raw Waterline Replacement and Upgrades project. The loan term is 20 years with an interest rate of one percent. The project qualifies for additional subsidization of \$1,400,000 in principal forgiveness.

The fifteenth loan request was a \$230,000 Fund F loan for the City of Barlow in Ballard County to construct a new clearwell and repair an existing 100,000 gallon water storage tank. The loan term is 20 years with an interest rate of one percent. The project qualifies for additional subsidization of \$80,500 in principal forgiveness.

Representative Rudy made a motion to approve the Fund F loans. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

KIA Grants

Ms. White indicated various coal and tobacco development grants authorized by the General Assembly were included in members' folders. No further committee action was necessary.

Economic Development (EDB) Pool Grant

Senator Leeper asked Donna Duncan, Commissioner, Department of Financial Incentives, Cabinet for Economic Development, to present an item. Ms. Duncan said the cabinet is requesting approval of a new \$550,000 EDB grant for the Louisville / Jefferson Metro Government f/b/o AAF-McQuay Inc. d/b/a AAF International to offset the cost of expanding the company's Louisville headquarters. AAF manufactures and distributes commercial air conditioning equipment and air filtration systems. Pursuant to the EDB grant agreement, the company must create 50 new, full-time jobs for Kentucky residents with an average hourly wage of \$25, including benefits. Additionally, the company agrees to maintain its existing workforce of 167 full-time positions.

In response to a question from Representative Wayne, Ms. Duncan said that it is standard procedure for local governments to receive the EDB grant money and disburse it to the approved company. She said with this type of bond fund the money cannot be returned to state government coffers. If a company fails to meet the job requirements, the local government will be repaid.

Representative Wayne asked what the average hourly wage was without the benefits included. Ms. Duncan said she was unsure of the exact amount and would provide the information to committee staff.

Senator Leeper asked if it was common for the company's rent to be included in the project components. Ms. Duncan said that it is unusual for rent to be included because most recipients of EDB grants own their facilities. She said this project is unique because the company is leasing its headquarters.

Senator Buford asked if the state is borrowing money through the issuance of long-term bonds to pay the company's rent. Ms. Duncan said the company will be using the grant money for fixed assets and the rent component was used in the total project amount to reflect all the project costs. She said the project would have still qualified for the grant if the rent had not been included in the total project component.

Senator Leeper asked why the rent is included in the total project components if it was not needed to qualify for the grant. Ms. Duncan said that EDB grants have to be for fixed asset financing. She said that the cabinet should have laid out the total project components differently so that it does not appear that rent is being paid with the issuance of long-term bonds.

Senator Leeper asked Ms. Duncan to provide the committee with further information regarding the rental component. Ms. Duncan said she would provide the information to committee staff.

Representative Wayne made a motion to approve the EDB grant. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

New Bond Issue – University of Louisville

Senator Leeper asked Brett Antle, Deputy Director, Office of Financial Management, to present two items. Mr. Antle said the first item was a new bond issue for the University of Louisville (UL) General Receipts Bonds, 2011 Series A. The par amount of the bonds is \$38,430,000. Proceeds from this bond issue will be used to construct a 100,000 square-foot facility to host recreational sports programs along with 27,700 square feet of space for the lifestyle educational services center.

Jason Tomlinson, Vice President for Finance, University of Louisville, said the bonds will support a student recreational center, which was advocated by the Student Government Association. Due to unprecedented growth in recreational sports at the university, the current facilities are inadequate to meet the growth.

In response to a question from Representative Wayne, Mr. Tomlinson said the new recreation center will have a workout facility, offices, meeting rooms, courts, recreational, among others.

In response to another question from Representative Wayne, Mr. Tomlinson said the current center is no longer adequate and the university has to find extra space off campus for intramural sports. He said with the new center students will not have to go off campus.

Representative Wayne commented that he was concerned with the extra fees students will have to pay as a result of the new facility. He said he was also concerned with how the university sponsors sports. Mr. Tomlinson said there will be no more entry fees for intramural leagues, elimination of entry fees and registration fees, and expansion of courses as a result of the new center.

Representative Wayne asked if prevailing wage will be used for this project. Mr. Tomlinson responded affirmatively.

Representative Wayne asked who owns and governs University Hospital. Mr. Tomlinson said he is not qualified to answer the question. He said the University Hospital is a separate entity from the university.

Senator Buford asked if any preference with regard to the new recreational center would be given to student athletes. Mr. Tomlinson responded no.

Senator Buford asked if any square feet in the new facility would contain administrative offices. Mr. Tomlinson said there would be some administrative offices for staff who oversee the intramural sports programs.

In response to a question from Representative Stacey, Mr. Tomlinson said University Medical Center Inc. is the governing entity of the UL Hospital, but he was unsure of the exact legal structure of the operations.

Representative Stacey asked what type of entity University Healthcare was. Mr. Tomlinson said he was not sure.

Representative Glenn made a motion to approve the new bond issue for UL. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

School Bond Issues

Mr. Antle reported one school district bond issue with School Facilities Construction Commission (SFCC) debt service participation for Fleming County.

Senator Leeper asked Ms. Culpepper to report new local school district bond issue. Ms. Culpepper said there were two local school district bond issues with 100 percent locally-funded debt service for Johnson County and Henderson County.

With there being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:10 p.m.